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## What the Iran Deal Means for Russia

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Over the last 18 months, the five permanent members of the UN Security Council (the United States, China, France, Russia, and the United Kingdom) together with Germany (collectively, the P5+1) have engaged in intensive negotiations with Iran on an accord to limit its nuclear program. On April 2, the two sides announced a framework agreement containing detailed parameters for a final accord to be negotiated over the subsequent 3-months period, with signature expected by June 30, 2015. Under the new accord, Iran would have to adhere to strict limits on its ability to produce plutonium and enrich uranium and accept an intrusive inspection regime for a period of at least 10 years in return for lifting of a range of sanctions imposed upon it by the international community. While several issues remain open, what's increasingly clear is that, unless the accord ultimately leads to a fundamental transformation in Iran's relationship with the West, Russia is likely to emerge as a key beneficiary of the process.

### Security Benefits

In the first place, an accord will enhance Russia's own security. Though not widely acknowledged, Russia in fact remains much more vulnerable to a potential Iranian nuclear attack than any of the other P5+1 member states. Iran's recently developed Shahab-3A ballistic missile has an effective range of up to 2,000 kilometers, not long enough to reach any of the other P5+1 states, but more than sufficient to hit targets in Western Russia. Moreover, since Russia is a signatory of the Intermediate Nuclear Forces (INF) Agreement, it is prohibited from fielding medium-range nuclear-armed missiles capable of striking Iran directly, which would provide the most effective means of deterring such a potential Iranian attack. By constraining Iran's ability to develop nuclear weapons, therefore, a nuclear accord provides Russia with safeguards against an Iranian nuclear attack, an outcome that it would have been unable to achieve on its own.

### Preserving the Islamic Republic

Still, reduction of the Iranian nuclear threat is hardly the most important benefit that Russia would receive from a concluded nuclear accord. More importantly, such an accord virtually assures the long-term survival of Iran's Islamic Republic, which has long been one of Russia's primary objectives in the Middle East. Russia's desire to preserve the current regime does not arise out of any fundamental affinity it might hold for the mullahs. Instead it reflects Russia's

view that Iran's current regime represents stability in a Middle East that is already rent with too much turmoil, and that instability in Iran could adversely affect Russia's interests in the region. It also reflects Russia's belief that Iran could emerge as a favorable partner for Russia in the region, since geopolitically Iran's interests align much more closely with Russia's than with those of the Western powers. According to Iran's defense minister Brigadier General Hussein Dehghan, "Iran and Russia have common viewpoints towards political, regional and global issues."<sup>1</sup> While a nuclear accord may not insulate Iran completely from the forces of change, it would at least take a militarily imposed regime change off the table, as long as Iran complies with the agreement.

## Economic Benefits

Survival of Iran's Islamic regime, coupled with the phasing out of sanctions, will open up important economic opportunities for Russia as well. In fact, economic relations between Russia and Iran have already warmed up significantly over the last several months, as the two have recently negotiated commercial transactions of significant value for Russia. In November 2014, Russia signed a multibillion-dollar agreement to build two additional nuclear reactors for Iran at the Bushehr nuclear power plant.<sup>2</sup> In addition to substantial revenues gained from construction of those facilities, Russia will also be able to sell Iran nuclear fuel throughout the life of the reactors. The arrangement also reportedly contains options for Russia to build up to six additional reactors in the future.

Furthermore, in January, the two countries signed a new military cooperation agreement that, among other things, facilitates the future transfer of Russian military equipment to Iran.<sup>3</sup> Moscow and Tehran also announced an agreement to settle a preexisting dispute over Russia's 2010 decision to suspend delivery of S-300 air defense platforms to Iran.<sup>4</sup> Subsequently, on April 13, Vladimir Putin announced that he was lifting the ban on delivery of air defense systems to Iran, paving the way for future transfers of the S-300. Although the specific details of such transfers were not disclosed, resolution of the dispute would eliminate a major source of contention in the relationship, potentially paving the way for future arms sales once sanctions are lifted.

Prior to canceling the S-300 sale, Russia had long been Iran's primary arms supplier, with total sales of nearly \$3.4 billion between 1991 and 2010.<sup>5</sup> Russia hopes that the lifting of UN sanctions will lead to a resumption of large-scale arms transfers. Sergei Shoigu, Russia's defense minister,

<sup>1</sup> "Russia and Iran Sign Defense Deal, 'May Resolve' S-300 Missile Delivery Issue," RT, January 20, 2015, <http://rt.com/news/224443-russia-iran-defense-deal/>.

<sup>2</sup> Andrew E. Kramer, "Russia Reaches Deal with Iran to Construct Nuclear Plants," *New York Times*, November 11, 2014, [http://www.nytimes.com/2014/11/12/world/europe/russia-to-build-2-nuclear-plants-in-iran-and-possibly-6-more.html?\\_r=0](http://www.nytimes.com/2014/11/12/world/europe/russia-to-build-2-nuclear-plants-in-iran-and-possibly-6-more.html?_r=0).

<sup>3</sup> Elena Holodny and Michael B. Kelley, "Russia and Iran Just Got Even Closer," *Business Insider*, January 20, 2015, <http://www.businessinsider.com/russia-iran-signed-military-cooperation-2015-1>. The new accord also provides for cooperation on military exchanges, joint training of military personnel, increased use of port facilities by their respective navies, and joint counterterrorism activities.

<sup>4</sup> *Ibid.*

<sup>5</sup> Based on data from SIPRI [Stockholm International Peace Research Institute] Arms Transfer Database.

stated that Russia would seek to create a “long-term and multifaceted” military relationship with Iran.<sup>6</sup> Iran’s military is in dire need of modern weapons, but because of ongoing disputes and residual mistrust, the West is unlikely to sell such weapons to Iran for some time to come, even after a deal is reached on the Iranian nuclear program. Iran would in any case remain wary of relying on the West for important weapon systems. Moreover, given Russia’s recent breach with the West over Ukraine and its increasing distaste for supporting Western sanctions initiatives as demonstrated by its recent votes to block UN sanctions against Syria, Iran is likely to feel more secure in relying on Russia for future arms sales.

On the other hand, Iran is most likely to turn to the West to obtain computer and telecommunications systems, electronic components, and other kinds of high-technology commercial equipment because Western products are technologically more advanced than Russian alternatives. Nevertheless, Russia is likely to make headway in certain niche markets where it remains technologically competitive, including space technology, oil and gas drilling and refinery equipment, pipeline construction, metallurgy, mining, civil aviation, chemical equipment, and railway expansion.<sup>7</sup> Moreover, if Western companies hesitate to move into Iranian markets due to lingering concerns over the stability of Iran’s relationship with the West, Russia could capture market share in other areas of Iran’s economy as well. In fact, Mehdi Sanayee, Iran’s current ambassador to Russia, recently noted that the two states plan to increase bilateral trade from the current level of \$5 billion to \$70 billion per year over the next several years.<sup>8</sup> Even if this target appears exceedingly ambitious, it is indicative of where the two parties would like to take their trading relationship going forward.

## Energy

One serious potential negative consequence for Russia arising out of the new accord will be the increased competition it will face when Iranian oil and gas supplies return to world energy markets. Iran will be eager to resume large-scale oil and gas exports to obtain much-needed revenue for its struggling economy. The injection of Iranian oil into an already glutted market threatens to further reduce oil prices at a time when Russia’s economy has already been hard hit by lower oil prices and a resultant decline in the price of the ruble. An increase in Iranian natural gas exports would also put downward pressure on regional gas prices, especially for Europe, which in turn would negatively impact Russia’s economy.

However, it will take at least a year for Iran to ramp up its oil production, and even longer to increase gas production. Nor is it certain that oil and gas prices will still be at their current low levels when significant Iranian supplies come on line. Meanwhile, Russia has already begun taking measures to mitigate the potential damage arising from Iran’s return to the energy markets. In August 2014, Russia and Iran reportedly signed a memorandum of understanding on

<sup>6</sup> “Russia and Iran,” RT.

<sup>7</sup> Y. Y. Belobrov et al., *Modern Russian-Iranian Relations: Challenges and Opportunities*, Working Paper (Moscow: Russian International Affairs Council, 2014), 21–27, <http://russiancouncil.ru/common/upload/WP14Russia-Iran-En.pdf>.

<sup>8</sup> Alex Vatanka, “Shrimp, SAMs, and the Limits of Russian-Iranian Romance,” *National Interest*, January 23, 2015, <http://nationalinterest.org/feature/shrimp-sams-the-limits-russian-iranian-romance-12101>.

a \$20 billion barter arrangement under which Russia would exchange up to 500,000 barrels of oil per day from Iran in return for Russian goods and services.<sup>9</sup> Although Iran's oil minister later denied that the agreement had progressed beyond the discussion stage, recent reports from Russia indicate that it may still be alive. According to Reuters, on April 13, Russian Deputy Foreign Minister Sergei Ryabkov affirmed that the agreement was in effect and that Russia had already begun delivering grain, equipment, and construction equipment to Iran.<sup>10</sup> However, other reports contradicted this assertion.<sup>11</sup> At any rate, if consummated, it would theoretically enable Russia to keep this extra oil off the market until prices return to a more acceptable level. Of course, increased Iranian production is not the only factor that will determine future oil prices. Much will depend on the policy of other Organization of Petroleum Exporting Countries (OPEC), especially Saudi Arabia, which could respond to growing Iranian production by decreasing their own output to avoid further price declines and to maintain current profit margins. While Russia has thus far done little to mitigate the potential impact of increased Iranian natural gas exports, the threat in this case is less immediate because of the delays that Iran will face in increasing gas production.

## Geopolitical Benefits

Russia is also poised to benefit geopolitically from the nuclear accord, because Iran is likely to emerge from this process as a newly empowered state, no longer constrained by the international sanctions regime and thus able to leverage its enormous energy reserves to obtain billions of dollars in additional export revenues. This newfound wealth will enable Iran both to rapidly increase its military capability and to better support its allies in the region, including Syria, Iraq, Yemen, and Lebanon. Thus, the net effect of the new nuclear accord would be to significantly increase Iran's power in the region relative to that of Saudi Arabia and its Gulf Cooperation Council (GCC) allies as well as Israel.

In general, such an outcome would accrue to the benefit of Russia, which stands to gain the most from a newly empowered Iran able to more effectively pursue its Middle East agenda. As things currently stand, there are strong incentives for Russia and Iran to increase cooperation in the region since in general they share the same geopolitical objectives. For example, Iran and Russia both remain strong supporters of the Bashar al-Assad regime in Syria. By contrast, since the Syria crisis erupted in earnest, the West has repeatedly called for Assad's removal from power. Although Western nations have recently moderated this position and have even begun cooperating with Assad (albeit unofficially) in the battle against the Islamic State in Iraq and Syria (ISIS), their willingness to work with Assad remains limited, and is not likely to endure once the threat from ISIS is defused.

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<sup>9</sup> Andrew Trotman, "Vladimir Putin Signs Historic \$20bn Oil Deal with Iran to Bypass Western Sanctions," *The Telegraph*, August 6, 2014, <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11014604/Vladimir-Putin-signs-historic-20bn-oil-deal-with-Iran-to-bypass-Western-sanctions.html>.

<sup>10</sup> Gabriela Baczynska and Vladimir Soldatkin, "Russia Confirms Iran Oil-for-Goods Swap, No Signs Seen," Reuters, April 14, 2015, <http://www.reuters.com/article/2015/04/14/us-iran-nuclear-russia-kremlin-idUSKBN0N50QN20150414>.

<sup>11</sup> *Ibid.*

Iran and Russia are also united by opposition to Saudi initiatives in the region, Iran because of the intensifying sectarian differences it has with Sunni-led Saudi Arabia and because it sees Saudi Arabia as its greatest geopolitical rival in the Middle East, and Russia out of concerns for Saudi support for Sunni radicalism and its potential spillover effects in Russia. Moscow has also been angered by recent Saudi efforts to reduce oil prices, which have badly undermined Russia's economy. By contrast, the United States and its Western allies have long enjoyed close ties with the Saudis. Despite recent disagreements among them over the right strategy toward Syria and the wisdom of pursuing the Iran accord itself, they are likely to remain closely aligned on key issues in the Middle East, including opposition to Assad and to Iran's adventurism in the region.

One area in which Iran and Russia differ markedly, however, is in their respective relationship with Israel. While Iran remains an implacable adversary of Israel, Russia's approach to Israel has been much more nuanced. For example, while continuing to support the cause of Palestinian statehood, Putin has done so in a balanced way, taking Israel's interests into account, sometimes condemning Palestinian behavior, and scrupulously avoiding a starkly anti-Israeli tone. At Israel's request, Russia has also in a few cases agreed to moderate or even cancel arms sales to Syria and Iran because they were seen to be particularly worrisome to Israel. For its part, there is significant support for Russia in Israel, where more than 1 million Israeli citizens originally emigrated there from the former Soviet Union. Moreover, Russia serves as an important export market for Israeli technology and agricultural products. Thus, while Russia would certainly face challenges in balancing its relations with both Israel and a newly empowered Iran, it has so far proven adept at maintaining good relations with both states despite such challenges.

Thus, absent a fundamental transformation in the relationship between Iran and the West, Russia and Iran are likely to draw closer once the new nuclear accord is in place. We should therefore expect to see greater cooperation between the two in a number of areas, including shoring up support for Assad in Syria, increasing their respective influence in Shiite-dominated Iraq, and countering Saudi influence in the region. Ultimately, the effect of all of this would be to increase Iran's power in the region at the expense of U.S. allies, thereby correspondingly reducing U.S. influence while increasing Russia's.

## Conclusion

In sum, unless the West treads carefully, the new nuclear accord, which will empower Iran, will also indirectly increase Russia's influence in the Middle East. Since they share strategic objectives in the Middle East, Russia and Iran are likely to pursue a common agenda antithetical to Western interests in the region. Thus, as Iran's position in the Middle East grows stronger, Russia stands to gain in areas where their interests are aligned, because a stronger Iran, supported by Russia, will be able to pursue those interests more effectively. While such an outcome is certainly not inevitable, it is a reasonable projection based on existing trends and underlying incentives. In fact it is more likely than not unless the West can capitalize on the new nuclear accord to fundamentally transform its relationship with Iran. The trick for the West will be to exploit the new opening with Iran to move beyond the nuclear dialog and to engage Iran in ways that provide it with incentives to integrate more closely with the West. By exploiting this opening to

increase trade with Iran and by encouraging large-scale Western investment in its economy, the West would give Iran a much greater stake in maintaining good relations. This in turn would create positive incentives for Iran to moderate its behavior in the Middle East. If the West fails to seize this opportunity, however, Russia stands ready to capitalize on its better relations with Iran to cement even stronger economic and political ties with Iran once sanctions are lifted.

Unfortunately, increased trade and investment will probably not be enough to turn Iran's behavior around. More will be required to truly transform the relationship between Iran and the West, because all of the current geopolitical incentives in the Middle East tend toward continuing conflict with Iran. As stated above, Iran's objectives in the region conflict directly with both Western interests and those of key Western allies in the region, especially Saudi Arabia and Israel. Resolving these conflicts will require committed dialog, restraint on all sides, and real compromises, all of which will be exceedingly difficult to achieve. Without some accommodation, however, Iran and Russia will continue to have strong incentives to cooperate to promote their shared agenda in the Middle East, which would likely provide Russia with significantly enhanced influence in the region.

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